

How to Finance Fashion Venture Business at Start-up and Growing Stages*

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Abstract

Venture industry is becoming a driving force of Korean economy in the digital age of the 21st century. The success of venture business depends on innovative technology, capital investment, and optimal environment providing industrial flexibility. Although venture business is starting to settle down in Korea, many barriers and challenges still remain. The current study analyzes the present status of venture business including fashion business and issues concerning the venture fund raising and provides prospective views to promote and improve venture industry in Korea.

Key words : financing, venture, venture capital, Angel, capital market.

I. Introduction

Recently in Korea, ever so vigorous debate on venture business is in progress in the government, the business world and academic circles with the proclamation of Venture Valley, the announcement of the venture promotion plans, and the National Venture Conference 2000. An excellent venture company competes with itself. Although the company may flatter itself to be the best, there are always something to be improved. In the business world, "being the best" means becoming a company which registers the highest capitalization with the highest profits. Then what is the task we challenge, to give venture firms engaging in the artificial intelligence industry an opportunity to translate their innovative ideas into actual products? Venture companies require technology and capital investment, while societal regulations and attitude must permit industrial flexibility for the

emerging business. It is us who must decide what to do to lay a cornerstone for the venture industry. Technological infrastructures have been built in some degree with the creation of new knowledge in Korea. However, many barriers and challenges still remain to equip with various channels of fund raising for venture start-ups and development.

The purposes of the current study are to analyze issues concerning the present status of venture fund raising, and to direct possible solutions suggested in search of the issues. The study was based on literature, and Internet Research.

II. Present Status of Venture Business

1. Definition and History of Venture Business

A venture business also known as "the aggregation of technology and capital", is defined as a new company launched to commercialize

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the ideas of technology development by one person or a number of core technical founders. The origin of venture goes back to the time when Queen Isabella of Spain granted the government funds to Christopher Columbus, the Italian explorer, for his journey to the New World. In the past, venture firms were launched by entrepreneurial inventors from genuine motives for the commercialization of their inventions. The modern concept of venture was born with capitalists, namely, venture capitals, who joined in the business expecting big profits from the commercialization of inventions.

The motives for nurturing venture businesses differ from country to country. As for America, after the 1987's Black Monday, amid the economic depression with inevitable restructuring of big enterprises and sluggish investment market, venture capitals actively invested in venture firms to promote the business. Venture was booming especially in the high-tech industries such as semiconductor, genetic engineering and computer. In 1990's until today, venture business based on the technology development of micro-electronics led the information technology.

In Japan, the situation was very different from the American venture. In face of the economic depression in the 1990s, the whole society maneuvered a defensive management system rather than the aggressive, blocking capital flow into venture business. When the depression ended and the corporate restructuring was nearly completed, the venture boom was created in order to develop new industries and improve industrial structure. Japan's venture focused on enhancement of managerial ability through leadership and self-responsibility, establishment of an in-house system to develop

unique products, high level of profits aiming at the global market, and construction of the company system to induce members' creativity.

Meanwhile, in Korea industrial conditions worsened with the 1997's IMF relief funds and restructuring, it was necessary for Korean economy to reform the high-cost and low-efficiency structure which had been a chronic problems. and to encourage balanced growth between different regions and the development of small and medium-sized companies. The government led the venture boom with the strong drive of "Five-year (1998~2000) plan for fostering venture business" in order to overcome the IMF crisis. The goal was to effectively create jobs and improve international balance of payments by nurturing the high-tech industry, and to build the basis for stable economic growth. The venture age started in full-scale with the announcement of revised "Special law on venture promotion (SLVP)" on December 3, 1998, and the following introduction of "The venture start-up system", with revision of "Enforcement Ordinance"(April 4 1999) of SLVP and "Confirmatory law of venture business" (June 1 1999).

2. Venture Business in Korea

According to a survey of the Small and Medium Business Administration (SMBA), 3,800 small and medium companies (including fashion venture firms) are newly launched every month in 8 large cities. And, as of July 2000, the number of venture-designated firms stood at 7,735. The SMBA survey on 4,008 venture firms reported at the end of Aug. 1999, demonstrates that the electrical, electronics and semiconductor industries occupied the largest portion of 22%,

<Table 1> Present Status of Designated Venture Firms

Classification	End of 1999	End of Jan. 2000	End of April 2000	End of July 2000
No. of venture firms (Monthly mean increase)	4,934 (241)	5,212 (278)	6,547 (543)	7,735 (618)

(Source : SMBA)

<Table 2> Difficulties in Venture Start-up

Classification	Ratio (%)
Approval & authorization procedures	21.6
Securing factory site	20.1
Financing	40.3
Securing manpower	5.2
Start-up information	3.5
Development of business ideas	4.5
Securing sales network	2.3
Facilities and equipment	2.3

(Source : CEO Information 83, www.seri21.org)

followed by the machinery and metal of 21%, and information technology & communications and multimedia of 15% (Table 1, 2).

By capital stock size of the companies, 74 percent of the total are small-scale firms with capital stock of less than 500 million won, while 44 percent are those with less than 100 million, 30 percent with between 100 million and 500 million, and 1 percent with over 10 billion. Regarding the regional distribution, 67.2 percent of the total are based in the National Capital region with 1,449 firms (36.2%) in Seoul, 913 (22.8%) in Kyung-gee province, and 327 (8.2%) in Incheon.

Successful domestic venture firms are mainly engaged in the high-tech fields such as information technology and communications, electronics, and the internet service. The key to their success is found in reliable business items, strong solidarity of members with determined nature, attack on niche markets maintaining a close relationship with big companies, active adoption of outsourcing to minimize expenses, utilization of outside resources, and a charismatic entrepreneur with technological insights, leadership and strong desire for accomplishment¹⁾.

In spite of their success, domestic venture businesses suffer various difficulties. First, the biggest problem is financing with the lack of

capital (Table 2). Financial support is limited to a period of 1 to 7 years from the start-up, thereby, not allowing enough time to generate actual profits from new technology. Second, due to the lack of systematic devices, current financing relies solely on individual investors or angel capital. Third, the shortage of specialized executives and manpower equipped with good technological knowledge. Finally, the lack of societal understanding of technological start-up and entrepreneurship, in particular, negative attitude toward bankruptcy²⁾.

Financial sources for the venture business are the industrial world, academic circles and the government (Table 3). There have been various studies reported both nationally and internationally. The current study will focus mainly on the financing of the industrial world, including venture capital, angels, investment banks, financing companies, and stock markets.

III. How to Finance Venture Business

To activate venture business, internal capacity of a firm and adequate outside support must maintain their balance. Outside support, especially, financing may vary in terms of its nature according to the development stages of the companies. Differential funding supports are required at different development stages, such as the start-up preparatory stage, start-up and early stage, and developing stage. At the early stage, venture capital and individual investment are the most important sources, while after the early stage, over-the-counter markets are the most crucial. <Table 4> shows the relevant laws concerning financial support of domestic venture business.

As for Korea, financial sources such as venture capital, individual investors and over-the-counter markets are not adequately supported at

¹ Ceo Information 221, www. seri21.org, 10-16.

² Ceo Information 83, www. seri21.org 15-17.

<Table 3> Venture Financing of the Industry, Academy, and Government

<u>Industry - venture fostering projects</u>	<u>Industry - venture fostering projects</u>
Venture capital	<u>Academy-education</u>
Angel capital	Universities/business schools
Investment banks' financing agencies → Venture firms ←	Middle & high schools
Stock markets (Kosdaq, Nasdaq) (Venture businessmen)	(Business experience, creativity and originality encouraged)
Accountant offices	
Law offices	← <u>Authorities - Government</u>
Consultants	Various funds from the government and provincial governments

(Source : Revision of "the research data on financing directions for venture businesses (p26)", Research and Development Organization (Japan))

<Table 4> Current Financing Laws for Domestic Venture Business*

Classification	Preparation for start-up	Early stage	Developing stage
Equity capital	1, 2, 5 a, b, c, e, f	1, 2, 5 a, b, c, e, f	1, 2, 3, 5 d, g
Borrowed capital	1, 2, 3, 4 a, b, c, e, f	1, 2, 3, 4 a, b, d, e, f	1, 2, 3, 4 d, e, f

* 1. Business founder, 2. The Government, 3. Venture capital, 4. Financial institutions including banks, 5. Individual and institutional investors.

a. Minor Enterprise Basic Law, b. Law on supporting the small and medium business start-up, c. Law on fostering small and medium business, and promoting products sale, d. Special law on venture promotion, e. Credit specializing law, f. Fair Trade Act, g. Securities and Exchange Law.

each stage of business development. Therefore, in such circumstances, supporting funds from the government agencies become important financial source. In this situation, where can a venture firm acquire adequate fund at each stage of its development? Financial sources crucial to success of the venture firm will discussed in detail.

1. Start-up Financing

Start-up financing is a funding support for a start-up venture firm or businessman with innovative ideas who is preparing for launching his own business to facilitate the establishment of small to medium venture. Start-up financing funds the commercialization of new ideas, technologies or products of a newly starting venture.

- (1) All companies, including the big enterprises, in principle, starts their business based on its equity capital. Since it is difficult to attract investors and even if investors must be given a great deal of shares at the seed stage or early stage of the business, it is recommended to rely on its equity capital or get financial support from founding members, relatives or angle investors at these stages.
- (2) However, venture businessmen who are starting their business or are within 3 years after the foundation, can get support from "Korea Technology Credit Guarantee Fund (KTCGF)" and "Small and Medium Industry Promotion Corporation (SMIPC)" (Table 5). The Financing procedures of KTCGF and SMIPC are shown in <Table 6>.

<Table 5> Government Funds³⁾

Financing agencies	Korea Technology Credit Guarantee Fund Small & Medium Industry Promotion Corporation
Funds size	The first half (March-July 2000) ₩140 billion The second half (Aug - Dec 2000) ₩ 60 billion
Targets	Businessmen preparing business start-up or venture firms within 3 years after foundation
Supporting limit	₩500 million per company (up to ₩300 million for working fund)
Repayment term	Repayment in 5 years (repayment in 3 years with a 3-year grace period)
Loan method	Mortgage-backed loan, along with credit or secured loan
Interest on a loan	Around 8% per annum (varies by the open market interest rate)

<Table 6> Financing Procedures⁴⁾

Korea Technology Credit Guarantee Fund		Small & Medium Industry Promotion Corporation	
Fund request	Company ▶ KTCGF	Fund request	Company ▶ SMIPC
↓		↓	
Acceptance & result notice	KTCGF ▶ SMIPC	Business potential evaluation	SMIPC
↓		↓	
Decision & result notice	SMIPC ▶ Company, KTCGF	Decision & result notice	SMIPC ▶ Company
↓		↓	
Apply for loan with surety certificate	Company ▶ SMIPC	Fund lending	Direct from SMIPC or indirect lending
↓			
Fund lending	Financial institution		

(3) In addition to the government funds, venture capital provide start-up financing by investing in the venture company stocks, unsecured convertible bonds or unsecured bonds with warrant. The venture capital will be discussed more detail in the later part.

2. Financing at the Early and Developing Stages

Financing is the most difficult matter for venture business. At early stage, and at developing stage in which a greater demand of fund is required, various direct or indirect financing channels must function properly to facilitate the

inflow of capital into venture business. Public offerings via the Internet, venture capitalists who are venture-specializing investors, angel capital from individual investors, financial institutions, and capital markets, including stock exchanges, the Kosdaq and the third market, must function organically, and also both financial support and policy loans from the government agencies must be carried out adequately.

1) Public Offerings Via the Internet

Public offerings via the internet are ways to raise fund through internet subscriptions instead of a security companies. A company advertises its public offering on its internet homepage,

^{3,4} Jung Ho Song, *From start up to listing* (Seoul: window of times, 2000), 205-207.

<Table 7> Public Offerings Via the Internet

Name of company	Face value	Subscription price	Amount raised
Gold Bank	5,000 won	5,000 won	990 million won
Nextel Telecom	5,000 won	30,000 won	900 million won
Citynet	1,000 won	3,000 won	600 million won
Jane & J. Media		10,000 won	990 million won

(Source : Mar 30, 1999, Korea Economic Daily)

receives subscriptions from the public, and allocates its stocks to those who pay the stock value through the designated bank accounts during a certain period of time. This method was developed based on the fact that the demand of funds at the early stage of venture development is relatively small, and raising funds less than 1 billion won does not require report to the Financial Supervisory Service (FSS).

Gold Bank was the first company to gather funds by internet subscriptions raising 990 million won from 1,485 subscribers. Other companies which raised funds via the internet include internet phone service provider Nextel Telecom, internet service provider Citynet, internet advertising company Jane & J. Media that attracted the public's attention with the superman character, 3INS running internet news and information channel Fashion Korea, and Hanaro Telecom Inc. (Table 7).

Public offerings via the internet, however, raise several problems to the investors. They lack of objective information on the venture firm to determine whether it is strong enough to invest, and poses great to the investors since it may fail to list on the Kosdaq market. If such problems adequately dealt, internet subscriptions could be the best way to raise funds for venture firms with the least expenses.

2) Venture Capital

"Venture capital" refers to a financial system in which an integrated support of capital, management skill and technical guidance is provided

to a start-up venture firm which has high-quality technology and great potential but lacks money and management skill, and recovery of invested money occurs after the venture firm is established. Venture capital is similar to existing financial institutions such as banks in a sense that they provide funds, but it is differentiated from other financial institutions by contents of its financial support. Financial institutions support funds in forms of secured loan - mortgage backed or credit - at a certain interest rate. In contrast, venture capitalists offer financial support in the form of unsecured stock investing to venture firms with technology and without a security. Such money is to be collected by selling the stocks when the venture company establishes itself in the industry. Also venture capital is characteristic in terms of risk and reward for success.

(1) Target Companies for Investment

Target companies for venture capitalists investment are those not exceeding 14 years after the foundation and registration. Investment method is, in principle, stock investing but other methods can be also adopted. They are as follows⁵⁾.

- Investment in convertible bonds : can be converted into stocks after a certain period of time
- Contracted investment : financial support on condition that the venture company pays rental fee in proportion to its business achievements such as sales volume and net income.

⁵ <http://Xpert.co.kr>

<Table 8> The Number of Venture Capital Firms by Country

Country	Number of venture capital
Korea (End of April 2000)	126
US (End of 1998)	847
Japan (End of 1998)	173
Taiwan (End of 1996)	117

(Source : Venture Incubator Co., Ltd.)

- Loan : lending short-term working funds at a certain interest rates, as similar to banks' loan, according to the invested company's development stages.
- Investment in projects : supply required funds for a specific project and divide the profits by agreement.
- Following support : guarantee for invested company

(2) The Number of Venture Capital

There were only 21 venture capital in Korea according to statistics at the end of 1986. However at the end of April 2000, it amounted to 126 with 26 firms newly founded in 1999 and 39 more afterwards (Table 8).

(3) Specialization of Venture Capital

At present, it is hard for venture firms to find a list of specialized venture capitals by industry for consultation. Therefore venture firms must look for press release of venture capital on venture start-ups with great concern. If no such press release are found, venture businessmen must find other ways to attract venture capitalists' attention.

(4) Priorities to Consider for Investment

Priorities to consider for investment vary depending on venture capital. According to a venture capitalist, they are more focused on the target company's management, planning the market share, and technology with a relative im-

portance of 40%, 30% and 30% respectively to decide the investment of their funds. The target company's management ability is considered, but it is a general tendency to ignore its financial status.

(5) Entry of Foreign Venture Capital into the Domestic Market

This year, foreign venture capitals notably have penetrated the domestic venture capital industry. They have aggressively invested in promising local firms even when domestic venture capitals were sluggish. As of May 2000, foreign venture capital firms that entered into the Korean market are⁶:

- ADL Partners (US)
- Eyes Venture Capital (Japan)
- Softbank Ventures (Japan)
- Citicorp Capital (US)

(6) Issues

Of all venture capitalists, only 10% decide their investment based on the accurate analysis of target companies. And the rest exercise speculative trading to earn margins by buying stocks based on so-called "Don't ask" strategy and reselling them at a higher price through outside brokers, and by joining with institutional fund managers or the market's "big hands", therefore disturbing the market's order. Such speculative investment relying on instinct and popular items of the exchange markets creates bubbles at the pre-Kosdaq stage. It, in turn, generates a vicious feedback loop in which numerous investors lose their money, investment resource is dried up, and therefore many venture capitals are driven to the brink of bankruptcy. Thus it is essential to restructure the inspection system of venture capital firms. As keen competition is expected with foreign venture capitals present in the domestic market, local venture capitalists must consider to build a strategic alliance or cooperation system with a foreign institution specializing in the evaluation and

⁶ Source : Venture Incubator Co., Ltd.(Table 9, 10)

examination of companies to invest.

3) Angel Capital

Angel capital system started in the US in the early 1980s. "Business Angels" or "Informal Venture Capital" refers to a group of individual investors organized to offer active consulting based on their expertise and experience, and to provide business funds, by investing capital

(contribution), to a budding venture firm equipped with technology.

(1) Membership and Capitalization

At present, 16 Angel Investment Associations (AIAs), 21 Angel Investment Clubs (AICs) invest their funds to the domestic venture firms. Their members mainly consist of relatively wealthy people in their forties or fifties. As

<Table 9> Specification of Angel Investment Associations (In Korean won)

Name of AIAs	Foundation Date	Membership	Location	Capitalization (Investment)
KAIST-AVM	June 4 1999	29	Dongdaemun-gu, Seoul	710 million (260 million)
E-ventures fund Ist Association	Aug 23 1999	28	Kangnam-gu, Seoul	10.92 billion (4.08 billion)
Millenium	Oct 20 1999	5	Mapo-gu, Seoul	50 million
Asia	Oct 20 1999	6	Mapo-gu, Seoul	60 million
Millenium	Oct 18 1999	10	Kangnam-gu, Seoul	120 million
Star Venture	Jan 3 2000	12	Chung-gu, Seoul	700 million
Coral	Dec 20 1999	7	Yongsan-gu, Seoul	10 million
Green	Dec 15 1999	14	Seongbuk-gu, Seoul	340 million
New	Jan 15 2000	5	Kangnam-gu, Seoul	50 million
Boram	Oct 15 1999	14	Kwacheon city, Kyunggee province	600 million (600 million)
Dasan	Oct 12 1999	33	Yunse-gu, Pusan	500 million (400 million)
Mirinae	Nov 17 1999	17	Dong-gu, Pusan	170 million (-)
Seogang	Dec 1999	17	Seongnam city, Kyunggee province	1 billion (100 million)
Maxsindo	Feb 2000	-	-	33 million
Click future	Feb 2000	12	-	42 million
New millenium	Feb 2000	36	-	1 billion
Total (16)	-	245	-	16.305 billion (6.98 billion)

(Source : Song, Jung Ho, From start-up to listing, (Seoul, window of times, 2222), 248-249)

indicated in <Table 9> and <Table 10> the membership of AIAs and AICs stands at 15,065, while capitalization amounts to 108.175 billion won.

(2) Target Companies and Methods for Investment

Angel capital provides financial support to venture firms not exceeding 3 years after their foundation or those within 3 years after transforming into a venture firm, by investing in stocks, convertible bonds and bonds with warrant.

(3) Issues

Currently, the investments of domestic Angel associations and clubs are not fully developed, as they are still at the burgeoning stage with various barriers and the lack of systematic devices. They, however, are expected to become a main financial source for venture firms when the system is fully established in the near future.

4) Financial Institutions

Banks nationwide including Kookmin, Peace and Shinhan banks, and affiliated companies of the banks are observed to steadily invest in venture businesses (Table 11). As shown in Table 11, the banks' investment in venture business amounted to some 268 billion won as of the first half of 2000. Each bank engages in the job actively by running a venture-investment specializing department, although the name and the number of personnel-usually 7 to 8- of the department vary according to banks. It is a good news for venture firms to add traditionally conservative banks to their list of financial sources.

5) Policy Loan

The government and government agencies provide venture firms with policy loan for technology innovation, management stabilization and structural improvement. The funds and the

relevant government agencies are as follows⁷:

Institute of Information Technology Assessment

- Designation and support of promising new technology

Small & Medium Industry Promotion Corporation

- Funds for management stabilization
- Structural improvement funds - funds for equipment and restructuring

Regional Communication Offices

- Funds for facility-purchase and equipment
- replacement to build and develop the information system
- Joint funds of small & medium multimedia firms(to build and operate the production, education and distribution facilities)

6) Capital Markets

Capital markets, direct financial markets with a size of liquidity and cash flow, may be the most helpful financial sources for growing venture firms that need a great deal of money.

(1) Current Situation

Domestic capital markets include the Korea Stock Exchange, the KOSDAQ (Korea Securities Dealers Automated Quotation) and the third market. It takes a great deal of time for early stage and developing stage of venture firms to cover all the requirements and expenses to be listed on the stock exchange market based on their own credit. In addition, the market mostly consists of mature medium and big enterprises making it even harder for small and medium venture firms to play a role in the issuing and secondary markets. Therefore, it would be advantageous for them to aim at the Kosdaq or the third market which are easier to enter.

The Kosdaq market for small and medium venture firms, was born in July 1996 by converting the negotiated transaction method of the

⁷ Jung ho Song, *From start-up to listing* (Seoul: window of times, 2000), 224-236.

<Table 10> Present Status of Angel Investment Clubs

Region	Name of AICs	Foundation date	Number of members	Investment achievements	
				No. of Invested companies	Amount (million won)
Seoul	Seoul Angel Club	Feb. 1999	5,500	50	500
	Muhan Angel Club	May 1997	55	20	9
	Hangyoung Angel Club	1999	35	2	7.2
	Kibo Angel Club	March 1999	540	14	128
	Minif Angel Club	1999	50	1	0.7
	Soongsil Univ.	May 1998	100	1	2.25
	Smart 21 Angel	June 1999	900	16	215
	HanNeung Angel Club	March 2000	6,000	-	-
Kyunggee	KyungGee Angel Club	May 1999	661	6	33
Dusan	Hangdo Angel	March 1999	100	-	-
	Busan Techno	July 1998	58	2	7
Taegu	Mirae Angel Club	May 1999	12	3	6
	Taegu Kyungbuk Angel Club	Nov. 1999	100	1	-
	21 World Angel Club	1999	28	-	-
Kyungnam	Inje Angel Club	1999	15	1	4.4
	Changwon College	Sep. 1999	25	-	-
Taejeon	Taedok Angel Club	Sep. 1997	50	6	1.7
	KAIST Angel Club	Feb. 2000	260	-	-
Chungbuk	Chungbuk Angel Club	May 1998	31	1	0.45
Kangwon	Fine Angel Club	Dec. 1999	100	2	7
Kwangju	Mudeung	Dec. 1999	200	-	-
Total (21)			14,820	126	921.7

(Source : Jung Ho Song. From start-up to listing, (Seoul, window of times, 2000), 249-250)

existing over-the-counter markets to the auction method, benchmarking Nasdaq market in the United States of America. It officially set out to give financial support to small and medium firms in the capital market, which have difficulty in using the market due to their small scale.

(2) Issues

As the Kosdaq aims the market to invest in relatively unknown small and medium venture firms, it is supposed to provide investors with sufficient information and disclosure of the companies. The market, however, neglects its duties and fails to attract enough investors. Also with the small number of shares ready to trade,

<Table 11> Specification for Investment of Financial Institution to Venture Firms as Year of 2000
(In Billions of Korean Won)

Financial institutions	1st half	Projected 3rd quarter	Projected 4th quarter
Korea Development Bank	80.5	23.7	45~50
Industrial Bank of Korea	16.0	5.7	10
Cho Hung Bank	6.5	2.67	5
Hanvit Bank	2.9	0.5	0.6
Korea Exchange Bank	9.3	2	8
Kookmin Bank	22.6	4.6	10
Shinhan Bank	10	4.4	6~7
Hana Bank	3.9	2.5	3
Koram Bank	5.8	8.6	5~10
Peace Bank	16	2	7.8~8
KDB Capital Corp.	41.7	23.2	35
Kookmin Technology Financing	27.7	7	5.3
Kookmin Venture Capital	-	2	2~6
IBK Capital	15.8	7.9	10
Shinhan Capital Co., Ltd	1	1.5	1~2

(Source : www.fntimes.com Korea Financial Times)

the Kosdaq market is vulnerable to become the target of professional dealers' manipulation. Recently, numerous individual investors have lost their investments, as some irresponsible owners shut down their companies after selling off their shares at a high price as soon as they were listed on the Kosdaq. Therefore it is required to tighten the regulations and improve the system to protect investors, and at the same time to boost business start-up.

7) Nasdaq

The NASDAQ(National Association Securities Dealers Automated Quotation) is one of America's three stock exchange markets, that opened in February 1971, and lists a great deal of innovative high-tech companies of Information technology (IT), telecommunications, pharmaceutical and genetic engineering industries. The Nasdaq's listing requirements are relatively relaxed compared to those of the NYSE. Korean firms are interested in the market because of this fact. Especially, the Nasdaq, the gateway to success for start-ups, and the world's biggest market in terms of the number of listed firms and trading volume,

applies the same listing requirements to both American and foreign firms regardless of their foundation date or profitability, as far as the firms provide their information thoroughly. Also it actively engages in ADR (American Depositary Receipt) transactions.

Thrunet and Mirae Industry became the first two Korean companies to be listed on the Nasdaq in November 1999. The latter, however, is assumed to be the only domestic venture firm on the Nasdaq, since Thrunet is considered a new enterprise rather than a venture firm. It is recommendable for venture firms either already meeting the listing requirements or trying to do so, to take advantage of the Nasdaq in order to raise funds as well to promote their products and brand recognition through out the world.

IV. Conclusion and Suggestions

The government expects the venture industry to be the driving force of the Korean economy in the digital age of 21 century to overcome the limits of big business-oriented growth and to create new technology and industries. Venture promoting policies are adapted to encourage the

industry to lead the reform of management style by establishing investment-oriented financing system and improving transparency in management under investors' supervision.

Fostering ambitious venture firms based on the market principle will break the established conventions and lead to the reform of the whole societal system with innovative thinking. Thus it is essential to create an optimal environment and to provide systematic support for venture business to full blossom.

To improve technological level and build tech-based society by fostering high-tech venture firms, the following suggestions can be made.

First, venture firms and capitalists must be reformed. Quick transformation into financial technology firms dumping the venture spirit, and the market authorities, and neglecting investors who pour their money in firms without any information on them must be rejected. And, the system must be overhauled to create sound capital markets for reliable fund-raising. Second, the government tax system must be reformed including the deduction rate and period of income tax, and the tax exemption on share transfer to promote the smooth inflow of capital into venture firms. Third, the operations of venture capital associations must be promoted, and foreign investment must be introduced to establish stable funds. Fourth, the institutional investors of the pension funds with huge fund must be encouraged to join the associations. Fifth, a network with foreign firms with huge capital and technology must be built for a strategic alliance. For the purpose, the authorities must introduce a way for venture firms to have periodic road shows nationally and interna-

tionally in America's Silicon Valley of U.S., Japan and Hong Kong.

Sixth, for balanced growth between regions, regional venture firms must be given priority in the inspection of corporation registration and registration requirements need to be relaxed to help them to facilitate their entry into the Kosdaq market.

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